

REQUEST FOR APPROVAL OF COMMUNITIZATION AGREEMENT

Klabzuba Oil & Gas Inc.
Lexington Place
930 West 1st Street
Ft. Worth TX 76102

Township 34 North, Range 15 East
Section 14: W $\frac{1}{2}$
320.00 Acres
Hill County

State Tract
Section 14: NE $\frac{1}{4}$ NW $\frac{1}{4}$, S $\frac{1}{2}$ NW $\frac{1}{4}$
Common Schools Trust = 100%
120 Acres

Klabzuba Oil & Gas Inc. has filed a request with the Department for the approval of a communitization agreement to communitize State owned acreage to permit development in conformity with regulations of the Montana Board of Oil and Gas Conservation Commission (BOGC).

A communitization agreement brings together small tracts sufficient for the granting of a well permit under applicable spacing rules. Communitization agreements are not formed until after a well has been drilled and proven to be productive. The communitization agreement provides for distribution of royalties and must be approved and signed by the Department to be effective. Communitization is important in the prevention of drilling of unnecessary and uneconomic wells which would result in physical and economic waste.

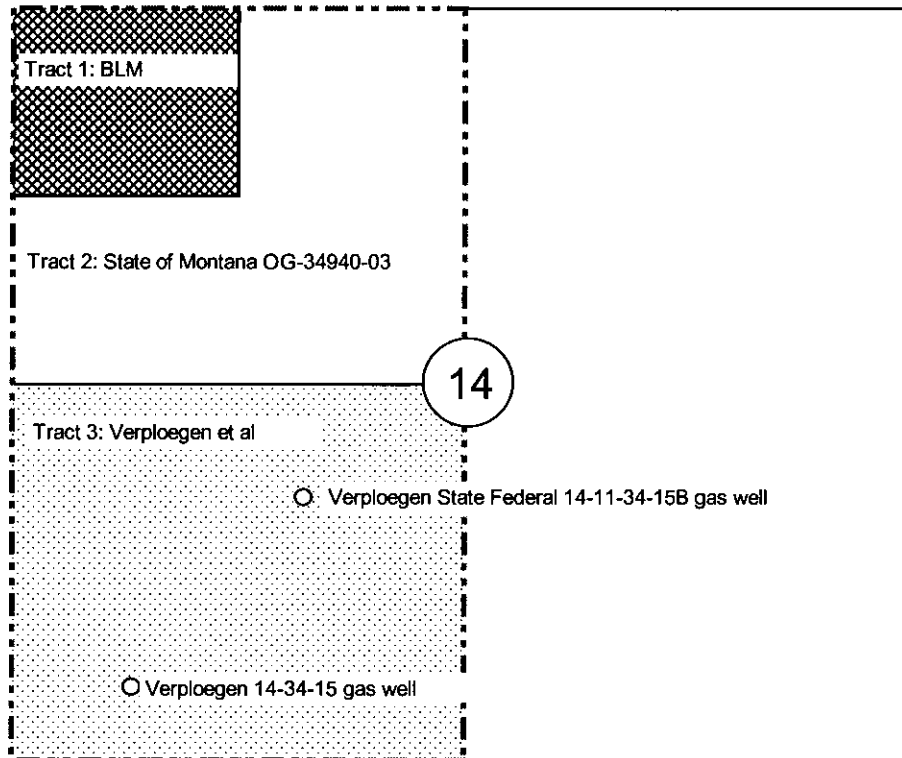
The Verploegen-State-Federal 14-11-34-15B, which is an Eagle formation gas well, was drilled in the NE $\frac{1}{4}$ SW $\frac{1}{4}$ of Section 14. This permanent spacing unit has a total of 320.00 acres. The Department owns 120 acres of the 640.00 mineral acres in the spacing unit that will be communitized. All the mineral owners in the spacing unit are currently sharing in the royalty from this well. The Communitization Agreement includes only the Eagle formation in Section 14.

The Department's tract comprises 37.5% of the communitized area. The communitized production will be allocated to each tract based upon the relationship of its acreage to the total acreage within the communitized area. The Department will consequently receive 4.69% of all gas production (12.5% royalty rate x 37.5% tract participation).

The Communitization Agreement will allow the State to continue to receive its proper share of production from the spacing unit. Therefore, the Director recommends approval of this Communitization Agreement.

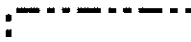
Township 34 North, Range 15 East

Section 14



Recapitulation

Tract No.	Type	Acres	Tract Participation	Royalty %	Owners Interest Decimal
1	MTM 092895	40.00	12.50%	12.50%	1.56%
2	State of Montana - OG-34940-03	120.00	37.50%	12.50%	4.69%
3	Verploegen	160.00	50.00%	12.50%	6.25%
Totals		320.00	100.00%		

 Border of Communitized Area

* Klabzuba Oil and Gas is the Operator of the Communitized Area